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TO: The Chair and Members of the Commission

FROM: Amy Woodward, Public Utilities Analyst

DATE: July 8, 2015

SUBJECT: IN THE MATTER OF THE APPLICATION OF UNITED WATER DELAWARE INC.
CONCERNING THE ESTABLISHMENT OF A DISTRIBUTION SYSTEM IMPROVEMENT
CHARGE UNDER THE PROVISIONS OF 26 *Del. C.* § 314 TO BE EFFECTIVE JANUARY
1, 2014 (FILED NOVEMBER 27, 2013) – PSC DOCKET NO. 13-472

IN THE MATTER OF THE APPLICATION OF UNITED WATER DELAWARE INC.
CONCERNING THE ESTABLISHMENT OF A DISTRIBUTION SYSTEM IMPROVEMENT
CHARGE UNDER THE PROVISIONS OF 26 *Del. C.* § 314 TO BE EFFECTIVE JULY 1,
2014 (FILED MAY 29, 2014) – PSC DOCKET NO. 14-192

On December 17, 2013, the Commission by Order No. 8501, approved the establishment of "Distribution System Improvement Charge" ("DSIC") under the provisions of which 26 *Del. C.* § 314. This charge allows a utility to promptly begin to recover a return on the water utility's eligible capital improvements and its associated depreciation expenses during the period between full rate cases.

Per this Order, United Water DSIC rate was set to 5.28% subject to review, audit, and annual reconciliation by Staff based on a 12-month period ending December 31, 2014. (PSC Docket No. 13-472)

On June 26, 2014, the Commission by Order No. 8575, approved the establishment of "Distribution System Improvement Charge" ("DSIC") under the provisions of which 26 *Del. C.* § 314.

Per this Order, United Water DSIC rate was reset to 6.85% effective July 1, 2014. (PSC Docket No. 14-192) The Delaware Code allows for the DSIC to go into effect without a substantial review, but does require an annual audit and reconciliation.

In June 2015, Staff conducted the audit. The audit concentrated on the three major components of the DSIC; namely, Rate Base, Rate of Return and Depreciation. Staff obtained a Rate of Return Schedule through the data request. The Rate of Return schedule showed that the Company had not exceeded its last authorized Rate of Return of 8.16%.

Associated with the Rate of Return is the revenue that the Company collected within the DSIC period. Staff reviewed a sampling of customer bills to determine if the billing accurately reflected the DSIC component. No discrepancies were found.

The Company collected \$615,770, which was \$9,152 below the projected revenue in PSC Docket 13-472. In PSC Docket No. 14-192, the Company collected \$802,406 which resulted in \$44,205 below the projected revenue. The annual reconciliation produced an under-collection in 2014 of \$53,357. This under-collection will be reconciled in the Company's future DSIC application.

Further, Staff reviewed the Rate base Component of the DSIC calculation. The plant additions were reviewed for conformity to the requirements of the legislation. Capital Expenditures Authorization and Retirement Work Order were reviewed to ascertain that appropriate expenditures were included in the Rate Base component of the DSIC. Staff believes that the plant portion of the DSIC calculation is accurate.

Finally, Staff tested the Depreciation Expense component of the DSIC. The total depreciation as calculated by the Company, agreed with the amount posted to the General Ledger, and the rates were the ones approved in PSC Docket No. 13-472 and 14-192. Therefore, based on the above analyses, Staff is satisfied that the DSIC rate of 5.28% effective January 1, 2014 and 6.85% as reset on July 1, 2014 is consistent with 26 *Del. C.* § 314. In the absence of any discrepancies, and based on the fact that the rate has been reset pursuant to a subsequent DSIC filing, Staff recommends that the docket be closed.

Staff has shared its findings with the Public Advocate and the Company and there are no objections with the docket being closed. Staff recommends that PSC Docket No. 13-472 and 14-192 be closed.